REPLY APPENDIX
(Federal Circuit Decision in FISKARS)

UNITED STATES COURT OF APPEALS,
FEDERAL CIRCUIT.

Nos. 98-1560, 98-1566.

FISKARS, INC. and FISKARS OY AB,
Plaintiffs-Appellees,
v.
HUNT MANUFACTURING CO.,
Defendant-Appellant,
and
JOSEPH F. POSILLICO,
Sanctioned Party-Appellant.

July 24, 2000

Patentee brought action for infringement of patent for paper cutter with circular blades. The United States District Court for the Western District of Wisconsin, Barbara B. Crabb, J., entered judgment on jury verdict of infringement. Alleged infringer appealed. The Court of Appeals, Newman, Circuit Judge, held that: (1) evidence supported finding that patent was infringed under doctrine of equivalents; (2) patentee did not engage in inequitable conduct in patent prosecution; and (3) infringer could be sanctioned for pursuing baseless claim of inequitable conduct.

Affirmed.

Before NEWMAN, RADER, and SCHALL, Circuit Judges.

PAULINE NEWMAN, Circuit Judge.

Hunt Manufacturing Co. (Hunt) appeals the judgment of the United States District Court for the Western District of Wisconsin,[1] entered upon a jury verdict of infringement, under the doctrine of equivalents, of United States Patent No. 5,322,001 (the '001 or Fiskars patent) entitled "Paper Cutter with Circular Blades," owned by Fiskars Oy AB and Fiskars, Inc. (together "Fiskars"). Hunt also appeals the district court's determination that there was not inequitable conduct in the United States Patent and Trademark Office. Hunt and its counsel Joseph F. Posillico appeal the ruling that Mr. Posillico had vexatiously and unreasonably multiplied the proceedings on the issue of inequitable conduct, thereby incurring liability for Fiskars' litigation costs on that issue.

The judgment is affirmed.

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II

INEQUITABLE CONDUCT

Hunt raised the defense that the '001 patent is unenforceable due to inequitable conduct by Fiskars during prosecution in the Patent and Trademark Office.

A ruling of inequitable conduct in patent prosecution requires the threshold findings that the applicant withheld material information from the PTO during examination of the patent or submitted material false information, and that the applicant acted with the intent to deceive or mislead the examiner into granting the patent. These findings must be made by clear and convincing evidence. *See Kingsdown Medical Consultants, Ltd. v. Hollister, Inc.*, 863 F.2d 867, 876, 9 USPQ2d 1384, 1392 (Fed.Cir.1988) (en banc). When both materiality and intent have been established, these facts

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[1] *Fiskars, Inc. v. Hunt Mfg. Co.*, No. 97-C-0255-C (W.D.Wis. Aug. 4, 1998).

are weighed to determine the ultimate question of inequitable conduct.

This issue was tried to the court as to the findings of underlying facts of materiality and intent, as well as the ultimate question of whether these facts constituted inequitable conduct. This procedure is within the district court's discretion, as explained in *Hebert v. Lisle Corp.*, 99 F.3d 1109, 1114, 40 USPQ2d 1611, 1614 (Fed.Cir.1996), and on appellate review the district court's factual findings are reviewed for clear error while the ruling on the ultimate question is reviewed on the standard of abuse of discretion. *See Modine Mfg. Co. v. Allen Group, Inc.*, 917 F.2d 538, 541, 16 USPQ2d 1622, 1624 (Fed.Cir.1990); *Kingsdown*, 863 F.2d at 876, 9 USPQ2d at 1392.

A

Hunt states that four material items were withheld from the PTO with the intent to deceive or mislead the examiner. The four items were three prior art paper cutters and a patent to Benavidez. Hunt concentrated its argument on a paper cutter called the "Maruzen device," which the inventor had seen at a trade show. The inventor testified that he considered this device to be the closest prior art.

The prosecution history shows a brochure describing the Maruzen paper cutter listed on PTO Form 1449 ("List of References Cited by Applicant(s)") and submitted to the PTO. Although Hunt does not dispute that the Maruzen brochure was submitted to the FF0, Hunt argues that the examiner did not consider it, pointing to the line drawn through this listing on Form 1449. *See* Man. Pat. Exam. P. 609 (7th ed. 1998) (directing an examiner to line through a reference that is not being considered).[2] Hunt states that this

[2] MPEP 609 directs an examiner to line through, and not consider, a prior art reference when the requirements of 37 C.F.R. §1.97 or §1.98 have not been satisfied. Hunt has not argued that Fiskars failed to satisfy

placed on Fiskars the obligation to stress to the examiner the relevance of the Maruzen device. However, the earlier PTO requirement that the applicant explain the relevance of the references listed was removed in 1992. Hunt makes no argument that Fiskars otherwise wrongly withheld the brochure.

The district court held that when a reference was cited to the patent examiner it can not be deemed to have been withheld, citing *Scripps Clinic & Research Found. v. Genentech, Inc.*, 927 F.2d 1565, 18 USPQ2d 1001 (Fed.Cir.1991). In Scripps the court held that inequitable conduct could not be based on an applicant's failure to cite a prior art reference, when the examiner independently cited the same reference. Hunt argues that the district court misread Scripps; we do not share Hunt's view. An applicant can not be guilty of inequitable conduct if the reference was cited to the examiner, whether or not it was a ground of rejection by the examiner. We do not know the examiner's reason for lining out the three cutters, but Fiskars' citation as prior art defeats Hunt's charge that the Maruzen device was withheld with deceptive intent. An applicant is not required to tell the PTO twice about the same prior art, on pain of loss of the patent for inequitable conduct.

The district court held that Hunt failed to introduce any evidence of withholding of prior art material to patentability. In its brief, Hunt discusses the features of the three cutters that are now asserted to be material to patentability. However, as the court observed, there was no evidence at trial as to how these three references compared in relevance to the thirteen references considered and listed by the examiner. The district

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any of these requirements, and the examiner gave no reason for the action. Therefore, we do not address the status of a reference that was submitted to the PTO without satisfying 37 C.F.R. § 1.97 and § 1.98.

court's ruling that Hunt produced no evidence of withholding of material prior art is well supported by the record.

On the issue of intent, Hunt provided no evidence of intentional withholding of material prior art. Hunt cites *Paragon Podiatry Lab., Inc. v. KLM Labs., Inc.*, 984 F.2d 1182, 25 USPQ2d 1561 (Fed.Cir.1993) for its observation that a "smoking gun" is "not always necessary," to establish intent to deceive. However, Paragon does not hold that there need be no evidence of culpable intent. In Paragon the affiants with "deliberate artfulness" swore that they were "not employed" by Paragon whereas they were owners or paid consultants of Paragon; this evidence was found to establish culpable intent. The court did not hold in Paragon that intent could be found without any factual basis. *See, e.g., Goodyear Tire & Rubber Co. v. Hercules Tire & Rubber Co.*, 162 F.3d 1113, 1122, 48 USPQ2d 1767, 1772 (Fed.Cir.1998) ("Both materiality and culpable intent are essential factual predicates of inequitable conduct, and each must be proved by clear and convincing evidence."); *B.F. Goodrich Co. v. Aircraft Braking Systems Corp.*, 72 F.3d 1577, 1584, 37 USPQ2d 1314, 1319 (Fed.Cir.1996) ("One alleging inequitable conduct must prove the threshold elements of materiality and intent by clear and convincing evidence.")

We affirm the district court's ruling that the facts predicate to inequitable conduct were not established.

B

The district court deemed the inequitable conduct claim "so lacking in substance as to constitute a waste of the time and resources of all the participants. "The court imposed sanctions on Hunt's counsel for "multiply [ing] the proceedings . . . unreasonably and vexatiously," 28 U.S.C. §1927,[3] and awarded Fiskars $8,582.50 of the attorney fees it incurred in defending against this charge.

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[3] 28 U.S.C. § 1927. Counsel's liability for excessive costs. Any attorney or other person admitted to conduct cases in any court of the

Hunt's counsel argues that the district court abused its discretion in imposing this sanction. He states that he presented a prima facie case of inequitable conduct, and that he did not act in bad faith. He argues that the inventor might have supported the charge of inequitable conduct had he been less credible or his testimony different, and that credibility could not be known until the inventor testified at the trial. Even a generous view of the record from Hunt's position does not weaken the district court's observation that neither material withholding nor intent to deceive was supported with evidence sufficient to make a prima facie case. An applicant's citation of prior art in accordance with the rules of the PTO precludes a finding of withholding of that prior art with deceptive intent.

The Seventh Circuit makes clear that liability under § 1927 for unreasonable and vexatious prolongation of the proceedings does not require that the actions were taken in bad faith. *See Knorr Brake Corp. v. Harbill, Inc.*, 738 F.2d 223, 226-27 (7th Cir.1984) ("This court has not required an express finding by the district court of subjective bad faith or intent to delay to support an award of fees under section 1927.") In the words of the district court, "[Hunt's] decision to pursue the counterclaim caused [Fiskars] to incur additional expenses, created extensive work for the court and cast a cloud over the integrity of the inventor and his original counsel." [4]

United States or any Territory thereof who so multiplies the proceedings in any case unreasonably and vexatiously may be required by the court to satisfy personally the excess costs, expenses, and attorneys' fees reasonably incurred because of such conduct.

[4] The patent attorney who prosecuted the '001 patent was retired, had undergone surgery for cancer, and was suffering significant cognitive difficulties. As the district court observed from his deposition testimony, he could no longer remember any detail about his work on the application for the '001 patent, including "whether he ever met personally with Boda [the inventor]."

In matters of trial management and attorney discipline, marked deference is owed to the discretionary rulings of the judge conducting the trial. *Abbott Labs. v. Brennan*, 952 F.2d 1346, 1351, 21 USPQ2d 1192, 1196 (Fed.Cir. 1991) ("It is improper on appeal to disturb a district court's trial management, absent a clear abuse of judicial discretion.") Absent a clear abuse of the trial judge's discretion, it is inappropriate for the appellate court to disturb a disciplinary action that is based on litigation conduct. Such abuse of discretion has not been shown. The sanction is affirmed.

AFFIRMED